

**Deep River-Millersburg Community School District**

**Independent Auditor's Reports  
Basic Financial Statements  
and Supplementary Information  
Schedule of Findings and Questioned Costs**

**June 30, 2004**

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## Deep River-Millersburg Community School District

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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#### **Board of Education (Before September 2003 Election)**

Ronald Grimm	President	2004
Carol Horras	Vice-President	2003
Kenneth Cheney	Board Member	2004
Amy Stephenson	Board Member	2005
Angela George	Board Member	2005

#### **Board of Education (After September 2003 Election)**

Ronald Grimm	President	2004
Carol Horras	Vice-President	2006
Kenneth Cheney	Board Member	2004
Amy Stephenson	Board Member	2005
Angela George	Board Member	2005

### **School Officials**

Alan Jensen	Superintendent	2004
Vicki Pope	District Secretary/Treasurer	2004
Orville W. Bloethe	Attorney	2004

## Independent Auditor's Report

To the Board of Education of the  
Deep River-Millersburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Deep River-Millersburg Community School District, Millersburg, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Deep-River Millersburg Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Deep River-Millersburg Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 10, 2004 on our consideration of Deep River-Millersburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary information on pages 4 through 11 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Deep River Millersburg Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ROLAND & DIELEMAN

Certified Public Accountants

September 10, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Deep River-Millersburg Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,546,476 in fiscal 2003 to \$1,583,417 in fiscal 2004, while General Fund expenditures increased from \$1,677,790 in fiscal 2003 to \$1,729,779 in fiscal 2004. The District's General Fund balance decreased from \$570,401 in fiscal 2003 to \$424,099 in fiscal 2004, a 26% decrease.
- The increase in General Fund revenues was attributable to an increase in state revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$19,173 in fiscal 2003 to \$3,526 in fiscal 2004.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Deep River-Millersburg Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Deep River-Millersburg Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Deep River-Millersburg Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

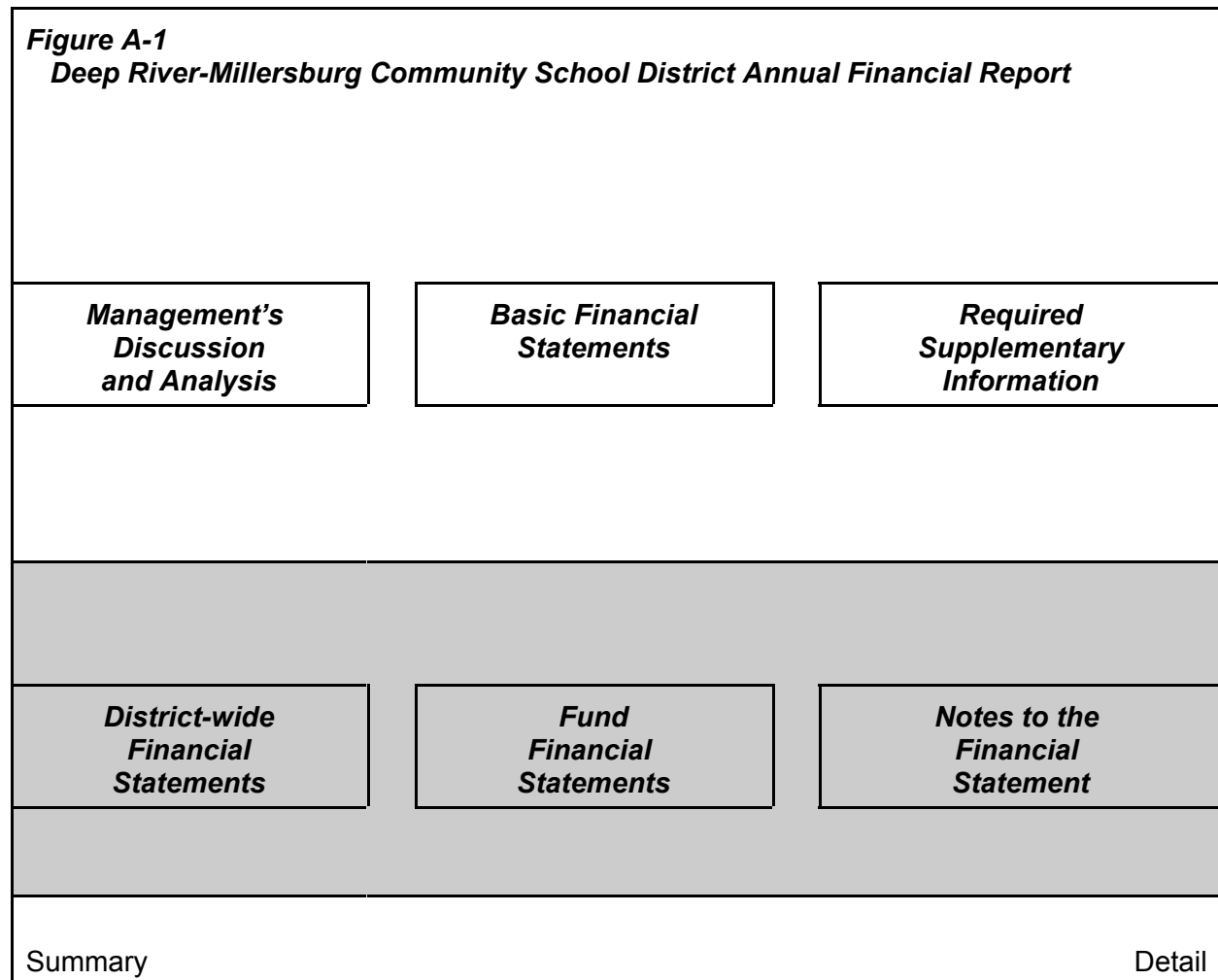


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

<b>Figure A-3</b> <b>Condensed Statement of Net Assets</b> <b>(Expressed in Thousands)</b>							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$1,317	1,373	4	6	1,321	1,379	( 58)
Capital assets	<u>87</u>	<u>64</u>	<u>0</u>	<u>0</u>	<u>87</u>	<u>64</u>	<u>23</u>
Total assets	<u>1,404</u>	<u>1,437</u>	<u>4</u>	<u>6</u>	<u>1,408</u>	<u>1,443</u>	<u>( 35)</u>
Long-term liabilities	0	0	0	0	0	0	0
Other liabilities	<u>719</u>	<u>686</u>	<u>0</u>	<u>0</u>	<u>719</u>	<u>686</u>	<u>33</u>
Total liabilities	<u>719</u>	<u>686</u>	<u>0</u>	<u>0</u>	<u>719</u>	<u>686</u>	<u>33</u>
Net assets:							
Investments in capital assets,							
net of related debt	87	64	0	0	87	64	23
Restricted	3	11	0	0	3	11	( 8)
Unrestricted	<u>595</u>	<u>676</u>	<u>4</u>	<u>6</u>	<u>599</u>	<u>682</u>	<u>( 83)</u>
Total net assets	<u>\$ 685</u>	<u>751</u>	<u>4</u>	<u>6</u>	<u>689</u>	<u>757</u>	<u>( 68)</u>

The District's combined net assets decreased by nearly 9%, or approximately \$68,000 from the prior year. The largest portion of the District's net assets is the invested cash.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$8,000. The decrease was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$83,000, or 12%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

<b>Figure A-4</b> <b>Changes in Net Assets</b> <b>(Expressed in Thousands)</b>			
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 132	22	154
Operating grants, contributions and restricted interest	167	26	193
Capital grants, contributions and restricted interest	11		11
General revenues:			
Property tax	619		619
Local option sales and service tax	57		57
Unrestricted state grants	671		671
Unrestricted investment earnings	4		4
Other	<u>98</u>	<u>—</u>	<u>98</u>
Total revenues	1,759	48	1,807
Program expenses:			
Governmental activities:			
Instruction	1,301		1,301
Support services	411		411
Non-instructional programs	28	50	78
Other expenses	<u>88</u>	<u>—</u>	<u>88</u>
Total expenses	<u>1,828</u>	<u>50</u>	<u>1,878</u>
Change in net assets	\$ <u>( 69 )</u>	<u>( 2 )</u>	<u>( 71 )</u>

### Governmental Activities

Revenues for governmental activities were \$1,806,765 and expenses were \$1,878,398. In a difficult budget year, the District spent more than receipts.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

<b>Figure A-5</b> <b>Total and Net Cost of Governmental Activities</b> <b>(Expressed in Thousands)</b>		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,302	1,065
Support services	410	410
Non-instructional programs	28	28
Other expenses	<u>88</u>	<u>16</u>
Totals	<u>\$ 1,828</u>	<u>1,519</u>

- The cost financed by users of the District's programs was \$131,883.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$178,293.
- The net cost of governmental activities was financed with \$723,772 in property and other taxes and \$671,228 in unrestricted state grants.

### **Business Type Activities**

Revenues for business type activities were \$48,130 and expenses were \$50,189. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

As previously noted, Deep River-Millersburg Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$597,178, below last year's ending fund balances of \$688,448.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$570,461 to \$424,099, due to the negotiated salary and benefits settlement.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$82,333 in fiscal 2003 to \$88,893 in fiscal 2004. While revenues remained approximately the same, the District substantially reduced from the PPEL Fund in order to improve the financial condition of the fund.
- The Capital Projects Fund balance increased due to sales tax revenue and no expenditures.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$5,681 at June 30, 2003 to \$3,622 at June 30, 2004, representing a decrease of approximately 36%.

### **BUDGETARY HIGHLIGHTS**

The District's receipts were \$25,572 less than budgeted receipts, a variance of 1%.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

## Capital Assets

At June 30, 2004, the District had invested \$86,000, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$15,083.

The original cost of the District's capital assets was \$995,000.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. A bus was purchased for \$37,000.

<b>Figure A-6</b> <b>Capital Assets, net of Depreciation</b> <b>(expressed in thousands)</b>							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 19	19	0	0	19	19	0
Buildings	17	20	0	0	17	20	( 3)
Furniture and equipment	<u>50</u>	<u>26</u>	<u>0</u>	<u>0</u>	<u>50</u>	<u>26</u>	<u>24</u>
Totals	<u>\$ 86</u>	<u>65</u>	<u>0</u>	<u>0</u>	<u>86</u>	<u>65</u>	<u>21</u>

## Long-Term Debt

There is no debt outstanding.

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future.

- The current whole-grade sharing agreements with Montezuma and English Valley Districts will expire in 2007.
- Patrons of the District will be asked on September 14, 2004 to renew the PPEL levy. This levy generates about \$33,000 annually.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Vicki Pope, District Secretary/Treasurer and Business Manager, Deep River-Millersburg Community School District, Millersburg, Iowa, 52308.

Deep River-Millersburg Community School District  
Statement of Net Assets  
June 30, 2004

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:			
Other	\$ 602,643	2,211	604,854
Receivables:			
Property tax:			
Delinquent	8,051		8,051
Succeeding year	646,112		646,112
Income tax	55,755		55,755
Sales tax	5,247		5,247
Inventories		1,411	1,411
Capital assets, net of accumulated depreciation	<u>86,730</u>		<u>86,730</u>
<b>Total assets</b>	<u>1,404,538</u>	<u>3,622</u>	<u>1,408,160</u>
<b>Liabilities</b>			
Accounts payable	8,761		8,761
Salaries and benefits payable	10,002		10,002
Deferred revenue - succeeding year property tax	646,112		646,112
Other	<u>55,755</u>		<u>55,755</u>
<b>Total liabilities</b>	<u>720,630</u>		<u>720,630</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	86,730		86,730
Other special revenue purposes	3,131		3,131
Unrestricted	<u>594,047</u>	<u>3,622</u>	<u>597,669</u>
<b>Total net assets</b>	<u>\$ 683,908</u>	<u>3,622</u>	<u>687,530</u>

See notes to financial statements.

Deep River-Millersburg Community School District  
Statement of Activities  
Year ended June 30, 2004

Exhibit B

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs</b>							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,145,359	98,329	106,146		( 940,884)		( 940,884)
Special instruction	119,492				( 119,492)		( 119,492)
Other instruction	36,917	32,938			( 3,979)		( 3,979)
	<u>1,301,768</u>	<u>131,267</u>	<u>106,146</u>	<u></u>	<u>(1,064,355)</u>	<u></u>	<u>(1,064,355)</u>
Support services:							
Student services	35,528				( 35,528)		( 35,528)
Instructional staff services	41,202				( 41,202)		( 41,202)
Administration services	114,291				( 114,291)		( 114,291)
Operation and maintenance of plant services	111,202				( 111,202)		( 111,202)
Transportation services	108,349	616			( 107,733)		( 107,733)
	<u>410,572</u>	<u>616</u>	<u></u>	<u></u>	<u>( 409,956)</u>	<u></u>	<u>( 409,956)</u>
Non-instructional programs	<u>28,139</u>	<u></u>	<u></u>	<u></u>	<u>( 28,139)</u>	<u></u>	<u>( 28,139)</u>
Other expenditures:							
Facilities acquisition	11,070			10,570	( 500)		( 500)
AEA flowthrough	61,577		61,577				
Depreciation (unallocated)*	15,083				( 15,083)		( 15,083)
	<u>87,730</u>	<u></u>	<u>61,577</u>	<u>10,570</u>	<u>( 15,583)</u>	<u></u>	<u>( 15,583)</u>
Total governmental activities	<u>1,828,209</u>	<u>131,883</u>	<u>167,723</u>	<u>10,570</u>	<u>(1,518,033)</u>	<u></u>	<u>(1,518,033)</u>
Business type activities:							
Non-instructional programs:							
Food service operations	50,189	21,575	26,550			( 2,064)	( 2,064)
Total	<u>\$1,878,398</u>	<u>153,458</u>	<u>194,273</u>	<u>10,570</u>	<u>(1,518,033)</u>	<u>( 2,064)</u>	<u>(1,520,097)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 619,722		619,722
Income tax					57,626		57,626
Local option sales and services tax					46,424		46,424
Unrestricted state grants					671,228		671,228
Unrestricted investment earnings					4,050	5	4,055
Other					49,509		49,509
Total general revenues					<u>1,448,559</u>	<u>5</u>	<u>1,448,564</u>
Change in net assets					( 69,474)	( 2,059)	( 71,533)
Net assets beginning of year, as restated					<u>753,386</u>	<u>5,681</u>	<u>759,067</u>
Net assets end of year					<u>\$ 683,912</u>	<u>3,622</u>	<u>687,534</u>

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

Deep River-Millersburg Community School District

Exhibit C

See notes to financial statements.

Balance Sheet  
Governmental Funds  
June 30, 2004

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
<b>Assets</b>						
Cash and pooled investments:						
Other	\$ 435,911	1,427	49,859	88,178	27,268	602,643
Receivables:						
Property tax:						
Delinquent	6,949			715	387	8,051
Succeeding year	562,237			51,875	32,000	646,112
Income tax	55,755					55,755
Sales tax			5,247			5,247
<b>Total assets</b>	<b>\$ 1,060,852</b>	<b>1,427</b>	<b>55,106</b>	<b>140,768</b>	<b>59,655</b>	<b>1,317,808</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 8,761					8,761
Salaries and benefits payable	10,002					10,002
Deferred revenue:						
Succeeding year property tax	562,237			51,875	32,000	646,112
Other	55,755					55,755
Total Liabilities	636,755			51,875	32,000	720,630
Fund balances:						
Reserved for debt service		1,427				1,427
Unreserved	424,097		55,106	88,893	27,655	595,751
Total fund balances	424,097	1,427	55,106	88,893	27,655	597,178
<b>Total liabilities and fund balances</b>	<b>\$1,060,852</b>	<b>1,427</b>	<b>55,106</b>	<b>140,768</b>	<b>59,655</b>	<b>1,317,808</b>

See notes to financial statements.



Deep River-Millersburg Community School District  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2004

Exhibit D

<b>Total fund balances of governmental funds</b>	\$ 597,178
--	------------

***Amounts reported for governmental activities in the  
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported as assets in the  
governmental funds.

86,730

<b>Net assets of governmental activities</b>	<b>\$ <u>683,908</u></b>
--	--------------------------

See notes to financial statements.

Deep River-Millersburg Community School District  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year ended June 30, 2004

Exhibit E

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
Revenues:						
Local sources:						
Local tax	\$ 534,920		46,424	55,117	29,684	666,145
Tuition	98,329					98,329
Other	24,858		100	289	33,074	58,321
Income tax	57,626					57,626
State sources	801,486			10,608	21	812,115
Federal sources	66,199					66,199
Total revenues	<u>1,583,418</u>		<u>46,524</u>	<u>66,014</u>	<u>62,779</u>	<u>1,758,735</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	1,120,825				24,534	1,145,359
Special instruction	119,492					119,492
Other instruction	5,417				31,500	36,917
	<u>1,245,734</u>				<u>56,034</u>	<u>1,301,768</u>
Support services:						
Student services	35,528					35,528
Instructional staff services	41,202					41,202
Administration services	114,291					114,291
Operation and maintenance of plant services	88,058			23,144		111,202
Transportation services	115,249			25,240	4,735	145,224
	<u>394,328</u>			<u>48,384</u>	<u>4,735</u>	<u>447,447</u>
Non-instructional programs	<u>28,139</u>					<u>28,139</u>
Other expenditures:						
Facilities acquisition				11,070		11,070
AEA flowthrough	61,577					61,577
	<u>61,577</u>			<u>11,070</u>		<u>72,647</u>
Total expenditures	<u>1,729,778</u>			<u>59,454</u>	<u>60,769</u>	<u>1,850,001</u>
Excess (deficiency) of revenues over (under) expenditures	( 146,360)		46,524	6,560	2,010	( 91,266)
Net change in fund balances	( 146,360)	0	46,524	6,560	2,010	( 91,266)
Fund balances beginning of year, as restated (note 7)	<u>570,461</u>	<u>1,427</u>	<u>8,582</u>	<u>82,333</u>	<u>25,645</u>	<u>688,448</u>
Fund balances end of year	<u>\$ 424,101</u>	<u>1,427</u>	<u>55,106</u>	<u>88,893</u>	<u>27,655</u>	<u>597,182</u>

Deep River-Millersburg Community School District

Exhibit F

See notes to financial statements.

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities  
Year ended June 30, 2004

<b>Net change in fund balances - total governmental funds</b>	\$ (91,266)
---	-------------

***Amounts reported for governmental activities in the  
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 36,875	
Depreciation expense	(15,083)	<u>21,792</u>

<b>Change in net assets of governmental activities</b>	<b>\$ <u>(69,474)</u></b>
--	---------------------------

See notes to financial statements.

Deep River-Millersburg Community School District  
Statement of Net Assets  
Proprietary Fund  
June 30, 2004

Exhibit G

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School  
Nutrition

---

**Assets**

Cash and cash equivalents

\$ 2,211

Inventories

1,411

**Total assets**

3,622

**Net Assets**

Unrestricted

3,622

**Total net assets**

\$3,622

See notes to financial statements.

Deep River-Millersburg Community School District  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund  
Year ended June 30, 2004

Exhibit H

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	\$ <u>21,575</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	22,540
Benefits	3,164
Supplies	<u>24,485</u>
Total operating expenses	<u>50,189</u>
Operating loss	( <u>28,614</u> )
Non-operating revenues:	
State sources	796
Federal sources	25,754
Interest income	<u>5</u>
Total non-operating revenues	<u>26,555</u>
Change in net assets	( 2,059 )
Net assets beginning of year	<u>5,681</u>
Net assets end of year	\$ <u><u>3,622</u></u>

See notes to financial statements.

Deep River-Millersburg Community School District  
Statement of Cash Flows  
Proprietary Fund  
Year ended June 30, 2004

Exhibit I

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 21,575
Cash paid to employees for services	( 25,704)
Cash paid to suppliers for goods or services	( 19,462)
Net cash used by operating activities	( 23,591)
Cash flows from non-capital financing activities:	
State grants received	796
Federal grants received	20,943
Net cash provided by non-capital financing activities	<u>21,739</u>
Cash flows from investing activities:	
Interest on investments	<u>5</u>
Net decrease in cash and cash equivalents	( 1,847)
Cash and cash equivalents beginning of year	<u>4,058</u>
Cash and cash equivalents end of year	<u>\$ 2,211</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$( 28,614)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	4,811
Decrease in inventories	<u>212</u>
Net cash used by operating activities	<u>\$( 23,591)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2004, the District received \$4,811 of federal commodities.

See notes to financial statements.

Deep River-Millersburg Community School District  
Notes to Financial Statements  
June 30, 2004

**(1) Summary of Significant Accounting Policies**

Deep River-Millersburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through sixth. The geographic area served includes the cities of Deep River and Millersburg, Iowa, and the predominate agricultural territory in Iowa and Poweshiek Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Deep River-Millersburg Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. Deep River-Millersburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Physical Plant and Equipment Levy Fund (PPEL) is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in a separate fund.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is



incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinion, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable and income surtax that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements, certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 19,481	_____	_____	19,481
Total Capital assets not being depreciated	<u>19,481</u>	_____	_____	_____
Capital assets being depreciated:				
Buildings	228,000			228,000
Furniture and equipment	<u>742,565</u>	<u>36,875</u>	<u>32,006</u>	<u>747,434</u>
Total capital assets being depreciated	<u>970,565</u>	<u>36,875</u>	<u>32,006</u>	<u>975,434</u>
Less accumulated depreciation for:				
Buildings	175,440	2,920		178,360
Furniture and equipment	<u>749,668</u>	<u>12,163</u>	<u>32,006</u>	<u>729,825</u>
Total accumulated depreciation	<u>925,108</u>	<u>15,083</u>	<u>32,006</u>	<u>908,185</u>
Total capital assets being depreciated, net	<u>45,457</u>	<u>21,792</u>	_____	<u>67,249</u>
Governmental activities capital assets, net	<u>\$ 64,938</u>	<u>21,792</u>	<u>0</u>	<u>86,730</u>

Depreciation expense was charged to the following functions:

Unallocated	\$ 15,083
Total depreciation expense - governmental activities	\$ 15,083

**(4) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$40,022, \$37,977 and \$37,223 respectively, equal to the required contributions for each year.

**(5) Risk Management**

Deep River-Millersburg Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(6) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$61,577 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(7) Accounting Change and Restatements**

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended

June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund					Total
	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	
Net assets June 30, 2003, as previously reported	\$ 570,461	1,427	8,582	82,333	25,645	688,448
GASB 34 adjustments:						
Capital assets, net of accumulated depreciation of \$925,108					<u>64,938</u>	
Net assets July 1, 2003, as restated						<u>\$753,386</u>

Deep River-Millersburg Community School District  
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted <u>Amounts</u> Original	Final Actual Variance
Receipts:					
Local sources	\$ 880,314	21,580	901,894	905,060	( 3,166)
State sources	812,115	796	812,911	844,559	( 31,648)
Federal sources	<u>66,199</u>	<u>20,943</u>	<u>87,142</u>	<u>77,900</u>	<u>9,242</u>
Total receipts	<u>1,758,628</u>	<u>43,319</u>	<u>1,801,947</u>	<u>1,827,519</u>	<u>( 25,572)</u>
Disbursements:					
Instruction	1,292,527		1,292,527	1,310,000	17,473
Support services	447,447		447,447	481,100	33,653
Non-instructional programs	28,139	45,166	73,305	90,000	16,695
Other expenditures	<u>72,647</u>	<u>      </u>	<u>72,647</u>	<u>139,001</u>	<u>66,354</u>
Total disbursements	<u>1,840,760</u>	<u>45,166</u>	<u>1,885,926</u>	<u>2,020,101</u>	<u>134,175</u>
Deficiency of receipts under disbursements	( 82,132)	( 1,847)	( 83,979)	( 192,582)	108,603
Balances beginning of year	<u>684,775</u>	<u>4,058</u>	<u>688,833</u>	<u>761,455</u>	<u>( 72,622)</u>
Balances end of year	<u>\$ 602,643</u>	<u>2,211</u>	<u>604,854</u>	<u>568,873</u>	<u>35,981</u>

See accompanying independent auditor's report.

Deep River-Millersburg Community School District  
Notes to Required Supplementary Information - Budgetary Reporting  
Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.



Deep River-Millersburg Community School District  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2004

Schedule 1

	Management Levy	Student Activity	Total
<b>Assets</b>			
Cash and pooled investments	\$ 18,074	9,194	27,268
Receivables:			
Property tax:			
Delinquent	387		387
Succeeding year	<u>32,000</u>	—	<u>32,000</u>
<b>Total assets</b>	<u>\$50,461</u>	<u>9,194</u>	<u>59,655</u>
<b>Liabilities and Fund Equity</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ <u>32,000</u>	—	<u>32,000</u>
Total Liabilities	32,000	0	32,000
Fund equity:			
Unreserved fund balances	<u>18,461</u>	<u>9,194</u>	<u>27,655</u>
<b>Total liabilities and fund equity</b>	<u>\$50,461</u>	<u>9,194</u>	<u>59,655</u>

See accompanying independent auditor's report.

Deep River-Millersburg Community School District  
Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
Year ended June 30, 2004

Schedule 2

	Student Activity	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 29,684		29,684
Other	100	32,974	33,074
State sources	<u>21</u>		<u>21</u>
Total revenues	<u>29,805</u>	<u>32,974</u>	<u>62,779</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	24,534		24,534
Other instruction		31,500	31,500
Support services:			
Student transportation	<u>4,735</u>		<u>4,735</u>
Total expenditures	<u>29,269</u>	<u>31,500</u>	<u>60,769</u>
Excess (deficiency) of revenues over (under) expenditures	536	1,474	2,010
Fund balances beginning of year, as restated	<u>17,925</u>	<u>7,720</u>	<u>25,645</u>
Fund balances end of year	<u>\$18,461</u>	<u>9,194</u>	<u>27,655</u>

See accompanying independent auditor's report.

Deep River-Millersburg Community School District Schedule 3  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Band and vocal		12		12
Interest	\$ 53	37		90
Elementary vocal	1,050	217		1,267
Library	57	47		104
Elementary tournament	1,527	1,513	882	2,158
Kid Care		15,609	15,565	44
Flowers	( 16)	191	128	47
Elementary	<u>5,049</u>	<u>15,349</u>	<u>14,925</u>	<u>5,473</u>
Total	<u>\$7,720</u>	<u>32,975</u>	<u>31,500</u>	<u>9,195</u>

See accompanying independent auditor's report.

Deep River-Millersburg Community School District  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 4

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local Tax	\$ 666,145	581,906	567,115	538,821
Tuition	98,329	90,398	84,001	76,438
Other	58,321	77,175	70,196	86,679
Income tax	57,626	55,946	87,392	92,461
State sources	812,115	787,825	747,595	806,843
Federal sources	66,199	76,801	55,363	67,818
Total	<u>\$1,758,735</u>	<u>1,670,051</u>	<u>1,611,662</u>	<u>1,669,060</u>
Expenditures:				
Instruction:				
Regular instruction	\$1,145,359	1,159,062	1,026,256	942,750
Special instruction	119,492	100,271	116,571	122,435
Other instruction	36,917	29,146	30,280	28,182
Support services:				
Student services	35,528	32,887	31,022	31,097
Instructional staff services	41,202	39,392	37,797	37,439
Administration services	114,291	94,206	93,596	101,500
Operation and maintenance of plant services	111,202	106,560	117,912	128,323
Transportation services	145,224	95,969	82,870	75,540
Non-instructional programs	28,139	31,384	32,556	25,779
Other expenditures:				
Facilities acquisition	11,070	4,580		
AEA flowthrough	<u>61,577</u>	<u>61,987</u>	<u>60,958</u>	<u>47,084</u>
Total	<u>\$1,850,001</u>	<u>1,755,444</u>	<u>1,629,818</u>	<u>1,540,129</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Board of Education of the  
Deep River-Millersburg Community School District:

We have audited the financial statements of Deep River-Millersburg Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Deep River-Millersburg Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the district's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Deep River-Millersburg Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. The prior year reportable condition has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Deep River-Millersburg Community School District and other parties to whom Deep River-Millersburg Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Deep River-Millersburg Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ROLAND & DIELEMAN

Certified Public Accountants

September 10, 2004

Deep River-Millersburg Community School District  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITION:**

I-A-04      Segregation of Duties - The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal control. This is not unusual in school District's of your size, but the Board should constantly be aware of this condition and realize that concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the District's operations.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to investigate alternatives to this problem.

Conclusion - Response accepted.

Deep River-Millersburg Community School District  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-04      Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- II-B-04      Certified Budget - Disbursements for the year ended June 30, 2004 did not exceed amounts budgeted.
- II-C-04      Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-D-04      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04      Business Transaction - No business transactions between the District and District officials or employees were noted.
- II-F-04      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-04      Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-04      Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-04      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-04      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.



Deep River-Millersburg Community School District  
Staff

This audit was performed by:

Roger Roland, CPA  
Ed Dieleman, CPA  
Royal Roland, CPA